

COUNCIL ON HOUSING
Public Session
Polytech Adult Education Center
Woodside, Delaware
October 10, 2007

ACTION ITEMS

- **NCALL FY08 Grant Request**
- **Compton Apartments Funding Request**
- **Brightway Commons II Funding Request**

On October 10, 2007, Roseann Harkins, Chair, called to order the Public Session of the Council on Housing at 2:05 p.m. In addition to Ms. Harkins, the following Council members were present:

Connie Louder
Joe McDonough
Ruth Sokolowski
John Walker
Norma Zumsteg

Council members excused from this meeting were:

Connie McCarthy
Vincent White

The following persons also attended the meeting:

Calvin Bonniwell, Housing Project/Loan Manager, DSHA
Lynda Blythe, Administrative Specialist III, DSHA
Matthew Heckles, Executive Assistant, DSHA
Saundra Johnson, Director, DSHA
Jerry Jones, Housing Finance/Development Administrator, DSHA
Thomas McGonigle, Esq., Wolf Block Schorr & Solis-Cohen LLP
Tim McLaughlin, Deputy Director, DSHA
Corinne Todd-Grieve, Housing Project/Loan Manager, DSHA

Guests present:

Kevin DiSabatino, DiSabatino Construction Co.
Kevin Kelly, Leon H. Weiner & Associates
Mike Pavco, Volunteers of America
Mike Skipper, WSFS Bank

Ken Smith, Delaware Housing Coalition
Karen Speakman, NCALL
Susan Starrett, Homeless Planning Council
Ken Smith, Delaware Housing Coalition

APPROVAL OF MINUTES

Mr. McDonough made motion to approve the August 8, 2007 minutes. Mr. Walker seconded the motion and the minutes were approved unanimously as written.

HDF STATEMENT

Mr. Jones noted items 117 (RC&D FY08) and 118 (Madison Street Homeownership) had been approved at the August 8th meeting. Items 120, 122 and 123, i.e. Brightways II, Compton Apartments and NCALL FY08 were being presented at this meeting.

NCALL FY08 GRANT REQUEST

Mr. Jones presented the attached NCALL (National Council on Agricultural Life and Labor Research Fund, Inc.) FY08 Grant Request for its Rural Development Homeownership Initiative (RDHI) remarking this is the 18th year NCALL has come before Council. He noted this initiative has brought in millions of dollars to Delaware through the RD program, a part of USDA. Mr. Jones continued with a explanation of the funds requested for the RD 502 Homeownership Program:

- Funds requested this year is an increase of approximately 2% from the previous year.
- Increase is to be used for administration costs to package the RD 502 homeownership loans.
- Interest rates vary from 1% to 6.75% .
- Length of loans is 33 to 38 years depending on the family's ability to repay the loan.
- Income variables is a low of \$27, 600 for Sussex County to a high of \$57,700 for New Castle County.
- This program targets a population with a fairly low income who otherwise would be unable to purchase homes.
- All but two of the homes assisted with the FY07 grant are in Kent or Sussex counties.

Mr. Jones continued by noting NCALL also participates in the Section 504 program:

- A rehab grant/loan program.
- Loans are available up to \$20,000 at 1% interest for 20 years to income eligible families.
- Grants, up to a maximum of \$7,500 are available to elderly (age 62 or older) only.

Mr. Jones next commented on RDHI performance statistics over the past 20 years:

- 554 loans have been closed.
- Leveraged amount to date of about \$56 million.

- Average loan amount is \$95,581.
- Average of 29 closings per year.

Sources and Uses of funds were next reviewed by Mr. Jones:

- This a matching funds grant request.
- NCALL has raised their \$78,610 as outlined in the handout.
- Total administration funding for FY08 will be \$157,200.
- Funding primarily for the hiring of two Rural Housing Specialists and indirect costs of day-to-day operations.

It is the recommendation of DSHA staff that an HDF grant in the amount of \$78,610 be approved.

Insofar as the conditions of the grant, Mr. Jones stated there are no changes to the conditions from previous years. NCALL does submit quarterly reports to DSHA and the properties are periodically inspected by a DSHA staff inspector.

Ms. Harkins asked about any questions raised during the Loan Review. The questions and responses are as follows:

1. Where are the properties located? As Mr. Jones indicated earlier, all but two are in Kent and Sussex Counties.
2. Where are the homebuyers were coming from, what conditions or properties? There were five buyers from substandard properties; five from overcrowded conditions and seven from other rental units.
3. What about the foreclosure situation? Mr. Jones stated foreclosures are not tracked locally but through national data banks through RD. Mr. Jones continued that, the good news is, foreclosures are not as great through RD funding as through the private market. Ms. Speakman commented the lower rate is due to their better counseling and better loan practices.

Mr. McDonough asked if there was any movement about regional or state statistics and would there be any benefit to having such information. Mr. Jones said the statistics could probably be acquired. Ms. Speakman will address this request.

Ms. Zumsteg made motion to approve Resolution 363 (copy attached), Mr. Walker seconded the motion. The motion was passed unanimously except for the abstention by Ms. Louder due to her employment by NCALL.

Ms. Speakman thanked the Council for their approval of the request and advised over 6000 people have been counseled and over 500 have received RD loans. Ms. Speakman also noted the range in income of their homebuyers was from \$18,000 to \$36,000 allowing them to purchase homes valued

from \$185,000 to \$213,000. Ms. Speakman also noted that RD also strives to have the homeowners graduate to conventional loans within 10 years. Mr. Jones mentioned NCALL might close 30 loans but, in the process, would have talked to over 100 families in an effort to qualify them for homeownership.

BRIGHTWAY COMMONS II FUNDING REQUEST

Mr. Jones stated this project is new construction through Volunteers of America. He reminded Council that in 2005 they had funded Banneker Heights (which is now called Brightway Commons) in Milford which was a subsidized Section 8 development originally financed through the DSHA bond program. This project had additional land available which the current owner will be transferring to the new ownership under a long term lease. Using the attached handout, Mr. Jones reviewed the Brightway Commons II funding request:

- Project will consist of 44 family units.
- Designed to match the first phase.
- The rents are Tax Credit rents.
- Loan request is \$2.75 million.
- Construction loans will be comprised of HDF, HOME funds and Low Income Housing Tax Credits equity.
- Permanent financing will be provided by DCIC and HOME funds.
- Cost per unit, without land, estimated at \$150,405.
- Target population is families with incomes not exceeding 60% of median income.

Mr. McDonough questioned the high development cost of over \$150,000. Mr. Jones replied this was the price quoted by the developer. However, because DSHA staff felt the cost was high they have required the developer to obtain three bids from contractors and submit to DSHA for final approval. Mr. McDonough also asked if the costs were an accumulation of many small things or one or two major items. Mr. Jones responded the amount was a total of all construction costs, not any one major item.

Mr. Jones pointed out that no bank is involved in the funding explaining the applicant, Volunteers of America, one of the largest housing non-profits in the U.S., has a relationship with an equity firm which allows the entire equity contribution to be available during construction. Typically, in Tax Credit projects, about one-third of the equity is brought in during construction and DSHA and a bank would split the difference with its respective financing. Because a bank is not needed in this case, a large savings of interest costs paid to a bank will be realized.

Reviewing the uses of the funds, Mr. Jones explained, because DSHA had financed the first phase, there is a partial payback of DSHA's loan. DCIC and DSHA each have a mortgage on the land being transferred. DSHA will receive half of the pay down and DCIC will get half which will go to reduce the respective mortgages.

Mr. Jones also stated DSHA has requested a reduction from the City of Milford on their high impact fees. The development fee was explained by Mr. Jones as being DSHA's standard calculation.

Ms. Sokolowski questioned the annual equity distribution structure. Mr. Jones explained that, several years ago, DSHA did an analysis of equity distribution which produced a distribution calculation set at 1.5% of the of the equity contributed. The State has always allowed a limited annual distribution for funds provided from investors. Ms. Sokolowksi asked if all the funds contributed were from Tax Credits and Mr. Jones confirmed they are. The gross equity amount is multiplied by 1.5% and, if available, the developer receives an annual distribution which is typically shared with the investor depending on what the investor requires. Ms. Sokolowski questioned if this was always a part of DSHA deals and Mr. Jones said yes. Mr. Jones continued that DSHA feels this is a reasonable figure and, even though other states may do this differently, it is an acceptable distribution.

Mr. Jones highlighted Assumptions #4, proposed monthly rents; and #5, equity contribution at construction loan closing, as well as during the construction period.

Mr. Jones next reviewed the recommendations of the staff. Items highlighted under Conditions of Funding are those specific to this project. Item 14, the requirement for three bids for the construction work is subject to review and approval of DSHA. Mr. McDonough questioned if this approval would come from DSHA staff or Council. Mr. Jones confirmed it would be staff approval.

Council reviewed Resolution No. 364 (copy attached) after which Ms. Sokolowski moved for approval and Ms. Louder seconded the motion. The motion was unanimously passed with the exception of Ms. Zumsteg abstaining due to her involvement with DCIC.

COMPTON APARTMENTS FUNDING REQUEST

Mr. Jones began the review of the attached handout for Compton Apartments by stating:

- Project was originally developed in the 1980's by Leon N. Weiner & Associates
- Project is now being rehabilitated and refinanced by the same developer.
- Construction financing is a combination of HDF funds, HDF/Preservation funds, PNC Bank funds, the developer contributing \$2+ million in tax credits via a short-term tax-exempt bond by the City of Wilmington.
- Permanent financing would be using HDF and HDF/Preservation funds.

Reviewing the uses of funds, Mr. Jones noted the low construction interest cost due to the small amount of bank financing. Reviewing the permanent financing assumptions, special note was made by Mr. Jones that the HDF mortgage is structured to provide principal and interest payments to DSHA but the loan could not be amortized due to inconsistent cash flow over the long term.

It is the recommendation of DSHA staff that funding be approved as outlined in the attached presentation. An additional condition to funding is that the developer request a waiver of permit fees and request grant funds from the City of Wilmington to be used to reduce the HDF first permanent loan.

Ms. Sokolowski asked if this was the first time the state had done 100% of a project's financing and, if so, would it be a precedent to be concerned about. Mr. Jones responded that the 9% credits were exhausted and the intent of the new preservation funds was to address distressed projects like Compton. The financing structure does allow DSHA to receive approximately \$1 million over the next 20 years in principal and interest payments. The financing also brings in over \$2 million in equity, since bond financing is involved.

Ms. Sokolowski stated she was under the impression that DSHA had a financing ratio for the amount of its funds into a deal. Mr. Jones stated that this was true for a 9% Tax Credit deal but the preservation program was to assist projects that did not rank high enough for 9% credits. Mr. Jones also stated that even though DSHA had more funding in Compton, comparatively speaking, the prospect of losing millions in federal subsidies for this project justifies the added funds.

Ms. Sokolowski asked why the developer decided not to wait until next year when more tax credits would be available. Mr. Jones explained there was no guarantee there would be tax credits available next year and that the project needed rehabilitation and financial stabilization as soon as possible. Compton was high on DSHA's list for financial workout assistance.

The Council reviewed Resolution No. 365 (copy attached). A motion was made by Mr. Walker to approve the resolution as presented. Seconded by Mr. McDonough the motion was approved unanimously with the abstention of Ms. Zumsteg due to her employment by PNC Bank.

DIRECTOR'S REPORT

Ms. Johnson gave a presentation of DSHA FY09 Budget Priorities (copy attached) outlining the three priorities established:

- Preserve site-based affordable rental housing.
- Create units for homeless Delawareans.
- Fund the Delaware Emergency Mortgage Assistance Program (DEMAP).

Total funding requested \$16,670,000.

Preservation

During Ms. Johnson's review of the progress of the FY08 Preservation Funding, Mr. Jones noted that Compton Apartments, as approved by Council today for funding, had applied and qualified for the 9% 2007 Tax Credits; however, there were four other projects which ranked higher. Ms. Zumsteg asked if DSHA would be in the same position next year, i.e. needing more funds than available through 9% credits. Mr. Jones responded it was quite possible. Ms. Sokolowski asked if, in order to maintain code compliance, financing would be based on re-structuring permanent debt;

i.e. permanent debt repayment being reduced to enable a build up of operating reserves. Ms. Johnson confirmed that was a correct statement. Ms. Sokolowski stated financial restructuring should result in fewer preservation problems in the future.

Mr. McDonough asked what would happen if the \$8 million in requested Preservation Funds were not given. Ms. Johnson stated adjustments for whatever amount received would have to occur. Mr. McLaughlin noted \$8 million was requested for FY08 and \$7.5 was received.

Units for Homeless Delawareans

Ms. Johnson reviewed the definition of homelessness and noted that, on any given night, there were approximately 2,000 homeless people. The two targeted populations in the 10-year plan to eliminate chronic homelessness are kids exiting foster care and persons diagnosed with mental health and/or substance use conditions. Ms. Zumsteg asked how many people were in the two groups. Ms. Johnson stated approximately 250 to 300 were chronically homeless. A third group to be targeted in the future are those exiting corrections facilities.

Ms. Sokolowski asked if DSHA had looked at using the Preservation Funds as a way to create housing for the homeless. Ms. Johnson explained that if the funds were not used to preserve what housing is currently available, those residents would be at risk of becoming homeless. The FY09 budget request provides for construction dollars to address new units for the homeless.

Mr. McDonough expressed concern that if Delaware's program for ending homelessness was successful would people come from other states to take advantage of it. Ms. Johnson agreed that could happen but, as Ms. Harkins noted, this was a federal decree and other states have their own programs for the homeless.

Ms. Zumsteg noted homeless is qualified as unaccompanied adults and questioned what could be done to address women and children. Ms. Johnson stated HUD is looking at changing the definition to include women and children but, at this time, the state's main focus will be on the two previously mentioned groups. Mr. McLaughlin commented the first emphasis is to help individuals; however, data is already being gathered to target homeless families.

Mr. Kelly commented on the amount of federal subsidy received over a 30-year period and that preservation activities allow for millions of subsidy dollars "not" to be lost.

DEMAP

During Ms. Johnson's review of who DEMAP helps, Ms. Zumsteg asked which counseling agency was doing the majority of the counseling. Ms. Johnson replied both Neighborhood House and the YMCA. Ms. Johnson stated the FY09 funding request is for \$1 million; however, those dollars would be exhausted by July/August by applications already on record. Ms. Johnson reported the prediction is that these mainly sub-prime mortgage foreclosures would probably not level off until late 2010.

Mr. Walker made motion to support the budget as presented by Ms. Johnson. The motion was seconded by Ms. Zumsteg and unanimously approved by Council. A letter of support will be sent by Council to the Governor. The public budget hearing will be November 8, 2007 at 11:00 a.m. at which time Council hopes to stress the importance of the DEMAP funding and the shortfall it will face even upon the Governor's approval.

OTHER BUSINESS

- Mr. McDonough asked about the room rental costs between state versus private facilities. Mr. Jones assured him the rates are comparable.
- Mr. McDonough asked if Kent and Sussex Counties could create their own housing authorities. Ms. Johnson stated yes; however, it was discussed many years ago and the counties did not want to create their own authorities.
- Mr. McLaughlin stated the nomination of the ninth member of Council to the Governor is scheduled for October 11, 2007.
- The Sunset Committee legislation was tabled last year and will probably be brought up again in January 2008.
- Ms. Sokolowski and Mr. White are to resume action on discussion of the By-Laws.
- Ms. Johnson stressed Council's attendance at both the Budget hearing on November 8th and the Governor's Council on Housing on November 14th. Registration fees for the November 14th meeting will be complimentary for Council members.
- The next meeting will be held Tuesday, November 20, 2007 at Buena Vista.

ADJOURNMENT

A motion was made by Ms. Zumsteg to adjourn. The motion was seconded by Mr. Walker and unanimously approved. The meeting adjourned at 4:05 p.m.

Respectfully submitted,

Lynda T. Blythe